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3) Prime Minister's Official Residence (Kantei)

Prime Minister's schedule, June 17

NIKKEI (Page 2) (Full)

June 18, 2009

07:53 Took a walk around his official residence.

10:01 Attended an Upper House plenary session.

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10:27 Met at the Kantei LDP diplomacy special committee chairman and former Prime Minister Yoshiro Mori, the committee's vice chairman and former Chief Cabinet Secretary Machimura, and others. Afterward met Upper House member Ichiro Tsukada.

11:31 Met Chief Cabinet Secretary Kawamura.

15:00 Attended a party-head debate.

16:42 Met Deputy Chief Cabinet Secretary Uruma at the Kantei.

18:04 Attended a meeting of ministers connected with the monthly economic report.

19:20 Met Kawamura.

19:35 Dined at a Hotel New Otani Japanese restaurant with Vice Finance Minister Sugimoto, Budget Bureau Director-General Tango, Tax Bureau Director-General Kato, and Deputy Vice Minister Katsu.

21:35 Returned to his official residence.

4) N. Korean missile possibly set to pass over Aomori for Hawaii

YOMIURI (Top play) (Abridged)

June 18, 2009

North Korea is now preparing to launch another long-range ballistic missile from a facility at Dongchang-ri in its northwestern province of North Pyongan. The missile is highly likely to head for Hawaii, passing over Aomori Prefecture, according to the Defense Ministry's analysis. The missile could be launched in early July, sources said. Based on this analysis and intelligence from U.S. reconnaissance satellites, the Defense Ministry has moved into top gear its study on how to deploy Aegis-equipped destroyers equipped with Standard Missile 3 (SM-3) interceptor missiles and ground-based Patriot Advanced Capability 3 (PAC-3) missiles.

According to the Defense Ministry, it has been confirmed that North Korea has missile sites at Kitairei near the military demarcation line with South Korea and at Dongchang-ri near the Yellow Sea, in addition to a missile site at Musudan-ri in its northeastern region, where North Korea launched a long-range ballistic missile in April. At the Dongchang-ri facility, either a Taepodong-2 missile or an upgraded Taepodong-2 projectile was believed to have been brought from a missile manufacturing facility near Pyongyang on May 30.

On the assumption that this missile is a two- or three-stage type and has capability equal or superior to the long-range ballistic missile North Korea launched in April, the Defense Ministry predicts that one of the missiles now being prepared will likely be launched toward Hawaii, with the possibility of a launch toward Okinawa and Hawaii. If a missile was launched toward Okinawa, when its first-stage booster is separated it could fall in waters off China and might anger China. In the case of a launch toward Guam, the launched missile will overfly South Korea and Japan's Chugoku and Shikoku regions, so the booster would have to be dumped onto a land area. As such, the Defense Ministry sees both possibilities as extremely low.

In the case of a launch toward Hawaii, the booster could be dumped into the Sea of Japan. If the test missile is successfully long-ranged, it will be a great military threat to the United

States, which has not regarded North Korean missiles as a threat to North America or Hawaii. The Defense Ministry therefore concluded that the Hawaii route is most likely.

Hawaii, however, is situated about 7,000 kilometers away from North Korea. The upgraded version of the Taepodong 2 only has a range of

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4,000 to 6,500 kilometers. The Defense Ministry believes that this latest missile, even if it took the shortest route over Aomori Prefecture, would not reach Hawaii.

5) LDP's Special Foreign Policy Committee makes proposals

YOMIURI (Page 4) (Full)  
June 18, 2009

Former Prime Minister Yoshiro Mori, chair of the Liberal Democratic Party (LDP) Special Committee to Strengthen Foreign Policy, yesterday visited Prime Minister Taro Aso at the Prime Minister's Official Residence (Kantei) to hand him a set of proposals, including one calling for appointing persons from diverse backgrounds to diplomatic posts. The proposals include: 1) upgrading and expanding the government official development (ODA) program; 2) positioning support for Japanese companies advancing overseas as a duty of the diplomatic establishments abroad; and 3) increasing opportunities for young Foreign Ministry personnel to work in developing countries. Aso promised to look into the recommendations.

6) Interview with next consul general for Okinawa: Not prepared to discuss relocation of Futenma base outside the prefecture, even if promoted by a DPJ administration

RYUKYU SHIMPO (Page 1) (Full)  
June 18, 2009

(Tokyo)

The U.S. Embassy's security policy unit chief, Raymond Greene, who is slated to become the next consul general for Okinawa, stated in an interview by the Ryukyu Shimpo that even if the Democratic Party of Japan (DPJ) were to assume power, and asks the U.S. government to relocate Futenma Air Station outside the prefecture, and to reconsider the (U.S. force realignment) package that includes the Guam Relocation Agreement, "The U.S. side is not prepared to discuss relocating Futenma outside the prefecture or revising the Guam Agreement." Greene stressed the U.S. intent to proceed with the current Japan-U.S. agreements.

Asked about local requests, including by the prefecture, to alter the Futenma relocation site into the sea, Greene avoided making a clear yes or no statement, saying, "We would like to complete the environmental assessment and start construction as soon as possible."

As for the reason the U.S. force realignment plan would not be reviewed, he stated: "U.S. force realignment lies at the foundation of the U.S.-Japan alliance, and if we do not implement the basic agreement, under the current severe security environment in East Asia, it would send the wrong message." He emphasized that the U.S. would proceed according to the agreement.

7) Aso again denies 'secret deal' over Okinawa reversion

TOKYO SHIMBUN (Page 2) (Full)  
June 18, 2009

The Japanese and U.S. governments reportedly exchanged "secret deal" notes concerning the reversion of Okinawa (in 1972), and the

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government has been sued for its information disclosure. In connection with this, Prime Minister Aso has denied that there was

such a secret agreement. "All I can say is that there is no secret agreement," Aso said yesterday evening, adding, "I have been saying so all along."

The government has asserted in a court hearing that it has no such document. In oral proceedings, the presiding judge called on the government to give a rational explanation about why it does not have the document. Asked about this, Aso said: "That's a matter of diplomatic documentation, so I'd like you to ask the Foreign Ministry. Anyway, this matter is pending in court, so I can't give you an answer."

#### 8) Main points from one-on-one debate

SANKEI (Page 5) (Abridged)  
June 18, 2009

The following is the gist of yesterday's one-on-one debate in the Diet between Prime Minister Taro Aso and Democratic Party of Japan (Minshuto) President Yukio Hatoyama.

##### North Korea problem

Hatoyama: If it's necessary to enact a new law for cargo inspections, we would be willing to discuss this legislation. I promise we will try to reach a conclusion as soon as possible. We will cooperate on what we should, while scrutinizing the bill's content. It's my understanding that the House of Representatives will be dissolved shortly for a general election, so let me ask you to come up with the bill as soon as possible.

Aso: The new United Nations Security Council resolution is far stricter than the one adopted last time. That's a result in its own way. We should respond to it sincerely. We will present the bill immediately, and I want to see the ruling and opposition parties concur and reach a conclusion.

##### Security affairs

Aso: I think what's most important now is to make the Japan-U.S. Security Treaty steadfast. Concerning whether the (U.S. Navy's) Seventh Fleet alone can protect the security of Japan, there is obviously something biased (in DPJ Deputy President Ichiro Ozawa's standpoint). I want the Diet to hold another one-on-one debate for us to discuss ways and means (over whether or not to hike the consumption tax) and security issues.

Hatoyama: Absolutely. In the end, you suddenly brought up something about security matters. The people must be flabbergasted. While holding full-blown discussions, I would like to clarify why the public is disgusted with the Aso government.

#### 9) Aso on defensive in Diet debate with DPJ chief Hatoyama

ASAHI (Page 2) (Excerpts)  
June 18, 2009

Prime Minister Aso and Democratic Party of Japan President Hatoyama faced off in the Diet in their second debate yesterday. Now that his administration's management has entered the danger zone as public

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support has sharply plunged, Aso wanted to fight back in the debate. But as he was apparently thrown on the defensive, his irritation was underscored. In the Liberal Democratic Party, calls for dumping Aso are growing. Depending on the outcome of the Tokyo metropolitan assembly election on July 12, the political situation might become even more intensified.

##### Hatoyama takes lead

When "remaining one minute" was announced, Aso suddenly took up the national security issue.

"We place emphasis on the security issue. There was a suggestion that only the deployment of the (U.S.) Seventh Fleet is sufficient.

I think it is most important to strengthen the Japan-U.S. Security Treaty."

Former DPJ President's seventh fleet remark was good material for the prime minister to attack the lack of the ability to hold the reins of government. But his abrupt change of topics invited sniggers even from among ruling party members. Hatoyama snapped: "I think the people listening must be amazed."

During the 45-minute debate, Hatoyama took the initiative from the beginning to the end.

Upon saying, "I was advised by other lawmakers not to take up this topic," Hatoyama brought up the issue of Japan Post Holdings Co. President Yoshifumi Nishikawa's reappointment at the outset, saying: "You cannot make proper judgments, you cannot make consistent judgments, and you make wrong judgments. From the point of view of me and the people, you fired a person who should not have been fired."

#### Moves for ousting Aso speeding up in LDP

The prime minister's lack of emotional capacity might be attributed to accelerated "Aso-dumping" moves in the LDP.

A senior LDP member who is close to Aso said last night, "Since he has busily stumped (to support LDP potential candidates for the Tokyo assembly election), if the party loses the election, he might have to take responsibility. The prime minister must be ready for that," causing a stir in the party. His remark might be premised on a victory in the Tokyo assembly election, but some speculate that depending on the outcome of the election, the prime minister might be pressed to step down.

Aides close to the prime minister are frantically trying to put out the fire. Chief Cabinet Secretary Kawamura said in a press conference yesterday: "A Tokyo assembly election is to elect assembly members. The outcome is not linked to the prime minister's responsibility." Another aide also said yesterday: "Even if the party loses the Tokyo election, the prime minister will not need to resign."

Even so, an increasing number of LDP members have begun to distance themselves from Aso in the wake of the issue of reappointment of Japan Post President Nishikawa. Many members see the Tokyo election as a prelude to the coming general election and the outcome of the election as a final judgment on whether the general election should be carried out under Prime Minister Aso.

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A senior New Komeito member said on June 16, the day before the party head talks: "If he is unable to fight back, it might determine the outcome of the election." But he was not able to perform satisfactory enough to regain political foothold in the debate yesterday.

Meanwhile, LDP House of Representatives member Koichiro Shimizu, a member of the Koga faction, started an activity yesterday to call for a vote of confidence in the prime minister. Machimura faction Lower House member Taku Yamamoto has begun collecting signatures to call for moving up the general election.

10) LDP in agony due to dismal support ratings for Aso cabinet; No effective means in sight

NIKKEI (Page 2) (Abridged slightly)  
June 18, 2009

The Liberal Democratic Party (LDP) is becoming restless due to declines in support ratings for the cabinet of Prime Minister Taro Aso. There are growing calls for a cabinet shuffle, and some members have begun openly discussing "emergency measures," such as an early LDP presidential election with the aim of unseating Aso. The situation reflects the government and the LDP which lack effective means to buoy up the administration ahead of the next House of

Representatives election.

A rumor is circulating in the LDP that Prime Minister Aso made a call to Finance Minister Kaoru Yosano's cell phone to tell him that he would carry out a minor cabinet shuffle on July 2.

The government plans to adopt the basic economic and fiscal policy guidelines for fiscal 2009 at a cabinet meeting on June 23. Key bills and fiscal 2009 extra budget-related bills now under deliberations are also expected to clear the Diet by June 26. At present, Yosano is concurrently serving as finance, financial services, economic and fiscal policy minister and Tsutomu Sato as internal affairs minister and national public safety chairman. The view is that Aso will carry out a cabinet shuffle to appoint individuals who are highly appealing to the public in the name of removing Yosano and Sato from dual/triple posts.

But the Prime Minister's Official Residence (Kantei) and Yosano totally denied the cabinet shuffle rumor. In any case, such an observation reflects the anguish of the LDP which is struggling to find a next step to increase the cabinet's support ratings.

Even more serious is the growing frustration in the Aso camp that has been supporting the Prime Minister.

Former prime ministers Yoshiro Mori and Shinzo Abe, former Chief Cabinet Secretary Nobutaka Machimura, and others hastily assembled together in the Diet building on June 16. In the session, one indicated that a cabinet shuffle before the Lower House election could be an option. Another presented a plan to convene an extraordinary Diet session immediately after the current session ends on July 28 that would run until September 10 to coincide with the expiration of the Lower House members' term in order to carry out the next general election in October.

An LDP executive close to Aso complained to his aide, "The Prime  
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Minister is slow to make decisions and his views are inconsistent." Another executive who called for a cabinet shuffle said: "The Kantei lacks a sense of crisis. If we were about to die, I would rather do something about it than do nothing."

An LDP executive indicated on June 16 that if the party lost the July 12 Tokyo assembly election, the Prime Minister would take steps accordingly. The repercussions of this statement are still being felt. The executive told the press corps yesterday: "We are working hard to win the election. I didn't say (the Prime Minister) would resign." Nevertheless, the prevailing view is that the trend of unseating Aso is unstoppable.

First-term Lower House member Koichiro Shimizu of the Koga faction kicked off a signature-collection drive yesterday for conducting a confidence vote on the LDP president after the Tokyo election. The drive effectively calls for an early LDP presidential election, instead of in September as planned, before the next Lower House election. Furthermore, some in the party are calling for the Prime Minister's voluntary resignation.

Meanwhile, Aso had been considering visiting Shizuoka to stump for the LDP candidate running in the July 5 gubernatorial race. But he decided not to do so yesterday, the day before the election's official announcement. Many think Aso made the decision in the hope that in the event the LDP candidate loses the race, its outcome would not affect national politics.

A New Komeito party leader muttered disgustedly: "Nothing can be done at this stage. We will just do whatever we need to do."

11) LDP desperate to cap rumor that Aso would take responsibility if his party is defeated in Tokyo Metropolitan Assembly election

YOMIURI (Page 4) (Full)  
June 18, 2009

A senior Liberal Democratic Party (LDP) member said that if a

defeated in the Tokyo Metropolitan Assembly election (July 12) will develop into the question of whether Prime Minister Taro Aso should resign. This remark is creating quite a stir in the LDP. Although LDP Secretary General Hiroyuki Hosoda is desperately trying to put out the flames caused by the remark, Hosoda's attempt is instead highlighting the LDP's lack of confidence and its impatience.

The turmoil this time was caused by the senior LDP member, who said in the evening of June 16: "Since the Prime Minister visited many electoral districts, he has probably made up his mind." The senior member yesterday explained about his remark that "What I meant is that the Prime Minister knows if we suffer a setback in the Tokyo Metropolitan Assembly election, the political situation will become fluid due to various views." For the reason that the senior member is Aso's close aide, there was strong speculation in the LDP that if the party is defeated in the Tokyo election, Aso might leave office

Aso and the LDP leadership are desperately trying to cap such speculation. Aso said in a strong tone last evening to the press corps: Local elections and national elections are totally different."

Hosoda told reporters yesterday: "(The Prime Minister) puts his faith in the next House of Representatives election. He thinks (the

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Lower House election) is of utmost importance." Chief Cabinet Secretary Takeo Kawamura also stated in a press conference: "It is true that the Prime Minister is putting all his energies into (the Tokyo election). However, he does not think that (the result of the election) will directly lead to (his course of action)."

In a meeting of yesterday of the ruling camp executive members, LDP Diet Affairs Committee Chairman Tadamori Oshima bowed his head, saying: "Various views are raised in our party. I'm sorry for causing trouble." After the meeting, New Komeito Secretary General Kazuo Kitagawa told reporters: "It is inappropriate for the third person to talk about what course of action the Prime Minister will take."

The reason for Hosoda attempting to put on the rumor is because there still remains a drive to remove Aso from office in the LDP because of the low public support rates for the Aso cabinet prior to the Lower House general election. His effort, however, has caused worries and doubts in the party that the LDP will likely suffer from a setback in the Tokyo Metropolitan Assembly election, as well.

Young LDP lawmakers are apparently concerned about an impact that the Aso cabinet's low approval ratings will have on their campaigning for the Lower House election. Lower House member Koichiro Shimizu, a Koga faction member, who is now serving his first term in the Diet, yesterday distributed to LDP lawmakers copies of the document calling for carrying out a confidence vote on Aso as LDP president. He explained about his action that "If the LDP president is replaced immediately after the Lower House election, voters will lose their reason for voting the LDP." A senior LDP member lamented such move, saying: "Everybody is doing his own thing. The Aso administration is really in its final days."

12) Opposition parties preparing for early Lower House dissolution

YOMIURI (Page 4) (Full)  
June 18, 2009

Predicting that there is a possibility that Prime Minister Taro Aso will soon decide to dissolve the House of Representatives, opposition parties are speeding up preparations for the general election.

The secretaries general of the Democratic Party of Japan (DPJ), Social Democratic Party (SDP), and People's New Party (PNP) held a meeting yesterday in the Diet building. The three secretaries general shared the perception that the Lower House will be dissolved on July 2 for a snap election on Aug. 2. Their prediction is that Aso will dissolve the Lower House before the Tokyo Metropolitan Assembly election, since he might be forced to leave office

depending on the outcome of the Tokyo election. Azuma Koshiishi, chairman of the DPJ caucus in the House of Councillors, said: "If (Aso) does not dissolve the Lower House by (July) 2, he will not be able to dissolve on his own. So, I have had the information that that's possible."

In the meeting, the participants confirmed that the three parties will launch discussion on common policy after the DPJ formulates by the end of next week the framework of its manifesto (set of campaign pledges) for the Lower House election.

13) Nishimatsu political donation scandal: Improper that Nikai

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faction was not indicted; Panel rules investigation was not exhaustive

AKAHATA (Page 1) (Excerpt)

June 18, 2009

The political support group, New Wave (under the Nikai faction), of which Minister of Economy, Trade and Industry (METI) Toshihiro Nikai is the representative, received 8.38 million yen purchases of party tickets from the dummy political organization of the second-tier general contractor, Nishimatsu Construction Company. In that connection, the special investigative unit of the Tokyo Prosecutors Office decided not to indict Upper House lawmaker Shinya, the accountant of the support group, and others relevant to the case. However, in a decision revealed yesterday, Tokyo's third investigative committee (a judicial panel) ruled that not indicting those involved was improper.

14) Postal scam: Former welfare ministry chief says he reported issuance of falsified certificate to DPJ member

SANKEI (Page 2) (Excerpts)

June 18, 2009

Osaka District Public Prosecutors Office is investigating a case of the Health, Labor and Welfare Ministry's alleged issuance of a fake certificate to allow a group involved in direct mail marketing to claim a disability discount on postal costs. In questioning, a former Handicapped Person's Health and Welfare Division chief, 57, said that after Atsuko Muraki, who was a senior ministry official in charge of administration pertaining to disabled people and was his subordinate at that time, informed him of the issuance of a certificate to the group Rin no Kai, "I reported it to a Democratic Party of Japan (DPJ) lawmaker," according to informed sources yesterday.

Muraki, who was arrested on charges of falsifying paperwork, has denied the charges, but prosecutors take the testimony as evidence to back up her charges. They have also judged it highly likely that the former chief reported the issuance of a certificate to the lawmaker over the phone. Prosecutors will conduct an investigation to find out whether the former chief recognized that the paperwork had been falsified.

In early June 2004, immediately after receiving information from Muraki, the former chief made a phone call to the DPJ lawmaker, according to the sources.

Kunio Kurasawa, 73, who is a key member of Rin no Kai, asked the DPJ lawmaker in his office in February 2004 to act as an intermediary between the group and the ministry. The lawmaker phoned the former department chief there. It has already been learned that the former chief later instructed Muraki to take action in response to Kurasawa's request.

In early June, Muraki was asked directly by Kurasawa, who was arrested, to quickly issue a certificate. In response, she reportedly told Tsutomu Kamimura, who was arrested, to "issue a certificate to the group even though it might not be involved in any activity to help disabled people."

15) Finance Minister Yosano declares in monthly economic report that

economy has bottomed out

MAINICHI (Top Play) (Full)  
June 18, 2009

Kaoru Yosano, who is in charge of economic and fiscal policy as well as financial services, on June 17 submitted the June monthly economic report to a meeting of related cabinet ministers. In response to the ongoing movements showing improvements of China-bound exports and industrial output, the government removed the word "worsening" from the overall assessment of the economy for the first time in seven months and revised the report upward for the second straight month, by including the wording "Although the economy still remains in a harsh situation, an upward trend is seen in some sectors." Yosano, during a press conference after the meeting, effectively declared that the economy has bottomed out. He said, "The economy bottomed out in the January-March quarter. Now that exports and industrial production have taken an upward turn, it can be strongly estimated that the economy has bottomed out."

The current economic recession kicked in in November 2007. The economy significantly slowed due to the financial crisis that occurred last fall. The overall assessments of the economy in monthly reports since last December had included the wording "worsening". The assessment in the May monthly report was revised upward for the first time in three years and three months. Since economic indexes for exports and industrial output improved, as can be seen by the industrial production index recording its highest rate of increase in 56 years compared with the preceding month's level, the government has decided to further revise upward the overall assessment of the economy.

Assessments of five out of 11 individual items in the report - exports, imports, industrial production, personal consumption, and bankruptcies - were revised upward. The wording for exports was changed from "about to stop falling" to "showing moves to pick up," and that for industrial production to "picking up."

However, capital investment by companies and employment still remains poor. In particular, the employment situation is continuing to deteriorate with the job-offers-to-seekers ratio recording the lowest-ever level of 0.46 in April and the overall jobless rate reaching the 5 PERCENT level for the first time in five years and five months.

Since the future course of overseas economies, such as the U.S. and Chinese economies, is unclear, the Cabinet Office remains cautious about the future of the economy. It says that since it cannot be determined that the economy has entered the sustainable recovery phase, there still is a high risk of the economy "hitting a second bottom." Therefore, the wording that the economy is still in a grim situation is kept intact. It is believed that the declaration that the economy has hit the bottom was partly motivated by the Aso administration's desire to stress the efficacy of a set of economic stimulus packages adopted since the end of last year in the run-up-to the upcoming general election and the G-8 Summit to be held in July.

16) President Arroyo replies in writing, "I would like to strengthen the Japan-Philippines EPA"

TOKYO SHIMBUN (Page 3) (Full)

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June 18, 2009

Michio Yoshieda, Manila

Replying to Tokyo Shimbun's written interview before leaving the Philippines, President Arroyo, who came to Japan on June 17, stressed, "Japan is the most important partner for the Philippines' success." She thus indicated her stance of aiming to strengthen the

Japan-Philippines Economic Partnership Agreement (EPA), which came into effect late last year.

The president praised the EPA, saying, "Nurses and care-givers from our country went to Japan in May. They are already beginning to achieve results." She expressed expectations that the EPA will be used in other areas as well in an effective way."

She also revealed her intention to ask for more investment by Japan into the Philippines during the upcoming talks with Prime Minister Aso, noting, "More investment is needed in order for our country to create new jobs."

She also said that she hopes to see Japan sign EPAs with China, South Korea, Australia, etc., in addition to Association of Southeast Asian Nations (ASEAN) members with which Japan has already signed EPAs, in order to establish economic partnerships involving East Asia as a whole.

Concerning North Korea's nuclear development issue, Arroyo clarified a stance of supporting Japan's position, noting, "Japan has supported the Philippines and ASEAN. The Philippines must coordinate with Japan in taking action against North Korea's threat, which is imposing fear and anxiety on the East Asia region."

17) China to start construction of pipelines via Burma in September, may affect Japan's reliance on Middle East oil

SANKEI (Top play) (Full)  
June 18, 2009

Toshu Noguchi, Beijing

It was learned on June 17 that full-fledged construction work on pipelines for oil and natural gas from Burma (Myanmar) to China will start in September. With this, China will be able to transport crude oil from the Middle East and Africa without passing through the unstable Strait of Malacca or South China Sea. It is believed that this will serve as one of the arteries to ensure stable supply of crude oil for China, the world's number two oil importer, and may possibly result in China's greater reliance on Middle Eastern oil. This is also likely to have an impact on Japan, which relies on the Middle East for most of its oil imports.

China and Burma signed an agreement on the construction of the pipelines for oil and natural gas in March. According to the Diyijijing Ribao (China Business News), officials of Petrochina, a major Chinese oil and natural gas company, revealed on June 15 that the construction project costing approximately 2 billion dollars will go into full swing in September.

The pipelines will start from the port city of Sittwe (Akyab) in western Burma, pass through Mandalay in the central part of the country, and go into Yunnan Province in China, thereby reaching

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Kunming via Dali. It will have a total length of some 1,100 kilometers and is expected to transport about 20 million tons of oil each year, or 400,000 tons daily.

The pipeline for natural gas will be completed as soon as 2012. It will ultimately be extended to Nanning in Guangxi Province and will transport 12 billion cubic meters of natural gas each year.

China became the number two oil consumer in the world in 2003 and surpassed Japan to become the number two oil importer in May 2008. It relies on imports for around 60 percent of domestic consumption. In 2007, the top five suppliers were Saudi Arabia, Angola, Iran, Russia, and Oman, with the Middle East taking up 45 percent and Africa 33 percent.

At present, most crude oil from the Middle East and Africa passes the Strait of Malacca enroute to China. Not only is the strait crowded and plagued by pirates, there are other factors of uncertainty in this area such as Indonesia, which has a history of anti-Chinese campaigns. There is also the territorial dispute over

the Nansha islands in the South China Sea.

The Chinese government was looking for alternatives to relying on the Strait of Malacca route to secure its energy supply. This fit in nicely with Burma's desire to earn foreign currency, resulting in the pipeline project.

Avoiding the Strait of Malacca when transporting oil also represents cost cutting for China, where oil consumption is constantly on the rise.

If China increases its procurement of oil in the Middle East after the pipeline is completed, this may impact crude oil supply for Japan, which imported 86.9 percent of its oil from this region in 2008. This may also contribute to a worldwide rise in oil prices.

ZUMWALT